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## Bad January likely means bad '09 for stocks

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As if things weren't bad enough, now we have the January barometer predicting another losing year for the stock market.

This forecasting tool holds that if the market rises in January, it will end the year up and if it falls in January, it will post a loss for the year.

There are various ways to measure this, and they all have a pretty good batting average. You can include January's gain or loss in the full year's performance, or not. For this column, I'm going to compare what happens in January with what happens for the next 11 months.

If you look at the Standard & Poor's 500 index since 1950 and exclude January's performance from the full-year results, the barometer was right 44 years or 75 percent of the time, according to data from Ned Davis Research.

The last big miss was in 2003, when the S&P fell 2.7 percent in January but rose nearly 30 percent during the next 11 months.

The stock market just posted its worst January in recorded history. Does that mean we are in for another brutal year?

Not necessarily, says Jeffrey Hirsch, editor of the annual Stock Trader's Almanac. Hirsch is a big believer in the barometer. His father, Yale Hirsch, founder of the almanac, discovered it back in 1972.

Coming into this year, Hirsch was bullish. "We think we had a bottom back on Nov. 20," he says. He still thinks the Dow Jones industrial average could hit 10,500 by June, up 32 percent from here.

"I'm not disregarding the January barometer. It's a very foreboding sign," Hirsch says. "But January was down for a reason. It's taking a while for the new administration and new Congress to get something actionable in play to stimulate the economy and shore up the banks." Treasury Secretary Timothy Geithner's tax problems "also spooked the market."

Hirsch says he's not going to make any hasty changes based on the barometer alone.

There are various theories about why the January barometer seems to work.

Hirsch says it started working in 1933, when Congress passed the lame duck amendment to the Constitution. Before 1934, newly elected legislators did not take office until December of the following year, 13 months after the election. Starting in 1934, legislators have taken office in January.

Since then, "All these important things happen in January. Priorities, goals, agendas are set. We also receive the usual host of economic data from the government. From that, Wall Street can gauge what the year is going to be like and respond in kind," Hirsch says.

Tax loss-selling also plays a role, says Novato money manager Ken Winans. Investors who sell losing securities to reap a tax loss in December can't buy back the same security within 30 days or they lose the tax benefit. "If January feels comfortable, they recommit the money," he says. If it feels scary, they might sit on the sidelines.

January also tends to be good for stocks because demand outstrips supply, says Ed Clissold, senior global analyst at Ned Davis Research.

Demand comes from people investing year-end bonuses and early tax refunds and making contributions to their Individual Retirement Accounts. On the supply side, January is a slow month for new stock issues because investment banking slows around the holidays.

If stocks can't do well in January with all these positive factors, it's likely to struggle the rest of the year, Clissold says.

Clissold puts stock in the barometer but thinks the market could overcome its terrible start if other indicators continue improving. Among them: Nine out of 10 S&P 500 sectors are up since Nov. 20 and only seven out of 42 global markets have fallen below their 2008 lows.

He says the January barometer is prone to err when the market is transitioning from a bear to a bull market, like it did in 2003.

It is also more likely to be overly gloomy than overly sunny. Since 1950, the market fell in January but rose the rest of the year 11 times. Only four times did it rise in January and fall the rest of the year.

"Sell signals are not as effective as buy signals," says Winans. Yet investors would be foolish to ignore the barometer. "I don't think anyone should use it by itself. But as it was last year, it's wise to consider the possibility that this will not be a good year. Defensive action should be taken."

### **False negatives**

Years, since 1950, when the S&P fell in January but rose in the next 11 months of the year

Year	January	February- December
1956	-3.65%	6.50%
1960	-7.15	4.50
1968	-4.38	12.6
1970	-7.65	8.39
1978	-6.15	7.69
1982	-1.75	16.81
1984	0.92	2.34
1990	-6.88	0.35
1992	-1.99	6.59
2003	-2.74	29.94
2005	-2.53	5.67

### **False positives**

Years, since 1950, when the S&P rose in January but fell in the next 11 months of the year

Year	January	February- December
1966	0.49%	-13.51%
1987	13.18	-9.85
1994	3.25	-4.64
2001	3.46	-15.95

Source: Ned Davis Research

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